

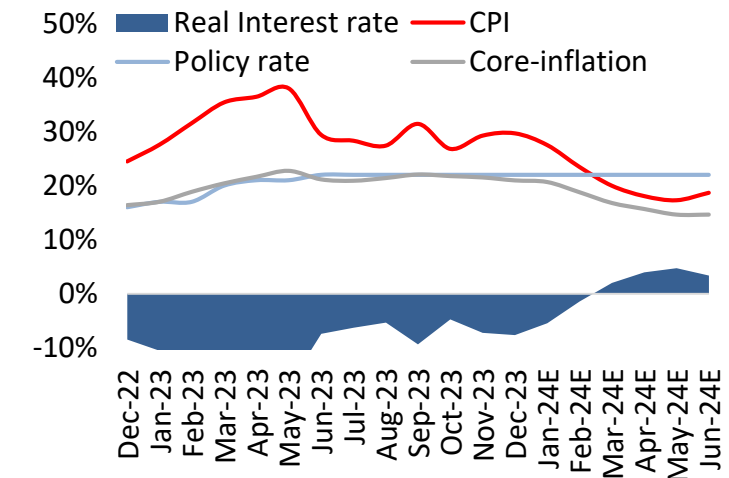
Inflation

NCPI remained high at 29.7% Y/Y in Dec-23

01 January 2024

- **Inflation clocked in at 29.7% Y/Y.** The increase in NCPI moderated to +0.8% M/M (vs 2.7% M/M in Nov-23), primarily due to a decrease in food inflation by 0.5% M/M and a lower increase across almost all other sub-indices. However, the Housing index increased by 3.8% M/M due to prior electricity price adjustments, as anticipated. Meanwhile, core inflation increased by 0.9% M/M (21.0% Y/Y).
- **Transportation charges jumped 11.95% M/M.** Despite a declining trend in fuel prices for the past three months, transportation charges caused the transport index to increase by 0.8% M/M, against expectations for a net decline in the index due to lower average fuel prices. This has had a higher impact on core inflation as well.
- **Electricity charges stayed elevated.** The Housing index increased by 2.5% M/M, driven predominantly by a 15.8% M/M surge in electricity prices. The prior month adjustment, combined with higher FCA charges of PKR 3.1/unit (vs PKR 0.4/unit in Nov-23), contributed to this increase. To recall, the removal of PHL charges (applicable on a recurring basis) in the Nov-23, caused a higher than estimated decline in Nov-23.
- **Food inflation moderated by -0.5% M/M.** Perishable food items declined by 3.7% M/M mainly due to seasonal impact, whereas non-perishable items remained almost flat at 0.05% M/M. Out of the total, 22 items witnessed an increase, 14 food items declined, whereas 3 remained unchanged.
- **Inflation will go down despite risks.** While new risks continue to emerge, energy prices and the PKR/USD rate will remain pivotal factors influencing inflation. Nonetheless, we anticipate notable decline in inflation over the next three to four months, starting Jan-24 in which NCPI is expected at ~27.5% M/M, primarily due to the higher base effect. Our average inflation estimates for FY24 stand at 24.8% Y/Y.

Avg. FY24 NCPI expected at 24.8% Y/Y



Source: PBS, Optimus Research

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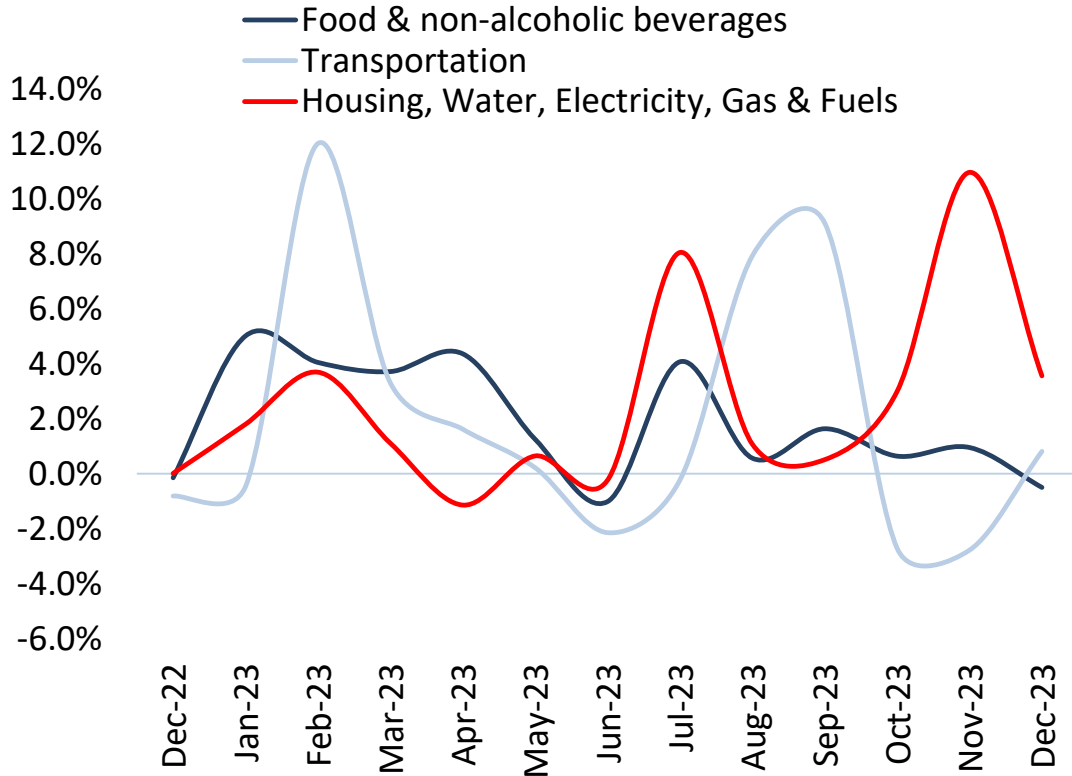


NCPI break up

| Inflation | Weights | Dec-23 | | 1HFY24 |
|--|---------------|--------------|--------------|--------------|
| | % | Y/Y | M/M | Y/Y |
| General | 100.0% | 29.7% | 0.83% | 28.8% |
| Food & non-alcoholic beverages | 34.6% | 27.5% | -0.49% | 32.0% |
| Alcoholic Beverages & Tobacco | 1.0% | 82.8% | 0.51% | 89.2% |
| Clothing & Footwear | 8.6% | 20.7% | 0.57% | 20.3% |
| Housing, Water, Electricity, Gas & Fuels | 23.6% | 37.7% | 3.56% | 22.6% |
| Furnishing & Household Equipment | 4.1% | 32.5% | 0.91% | 37.7% |
| Health | 2.8% | 23.4% | 0.71% | 23.8% |
| Transport | 5.9% | 28.6% | 0.81% | 25.5% |
| Communication | 2.2% | 7.4% | 0.02% | 7.2% |
| Recreation & Culture | 1.6% | 38.5% | 0.03% | 55.1% |
| Education | 3.8% | 13.5% | 0.23% | 11.6% |
| Restaurants & Hotels | 6.9% | 30.7% | 0.72% | 33.0% |
| Miscellaneous | 4.9% | 31.6% | 0.97% | 36.1% |

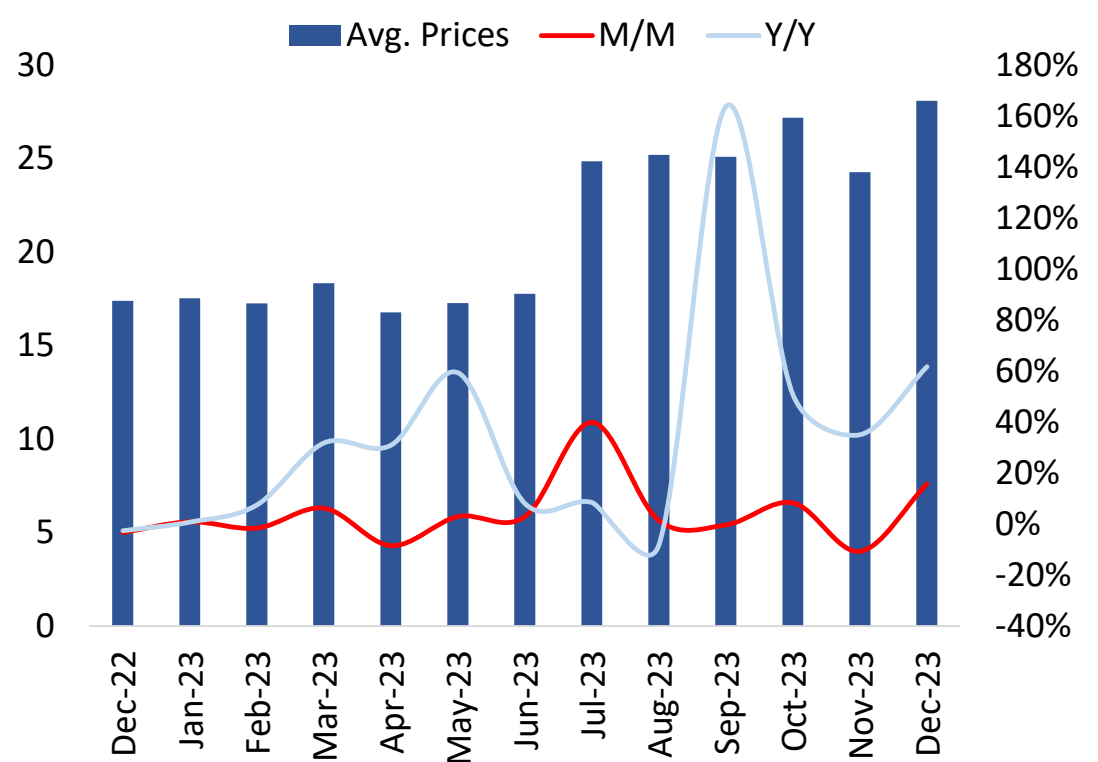
Source: PBS, Optimus Capital

Chart 1: Housing index moderated but stayed high on Electricity prices



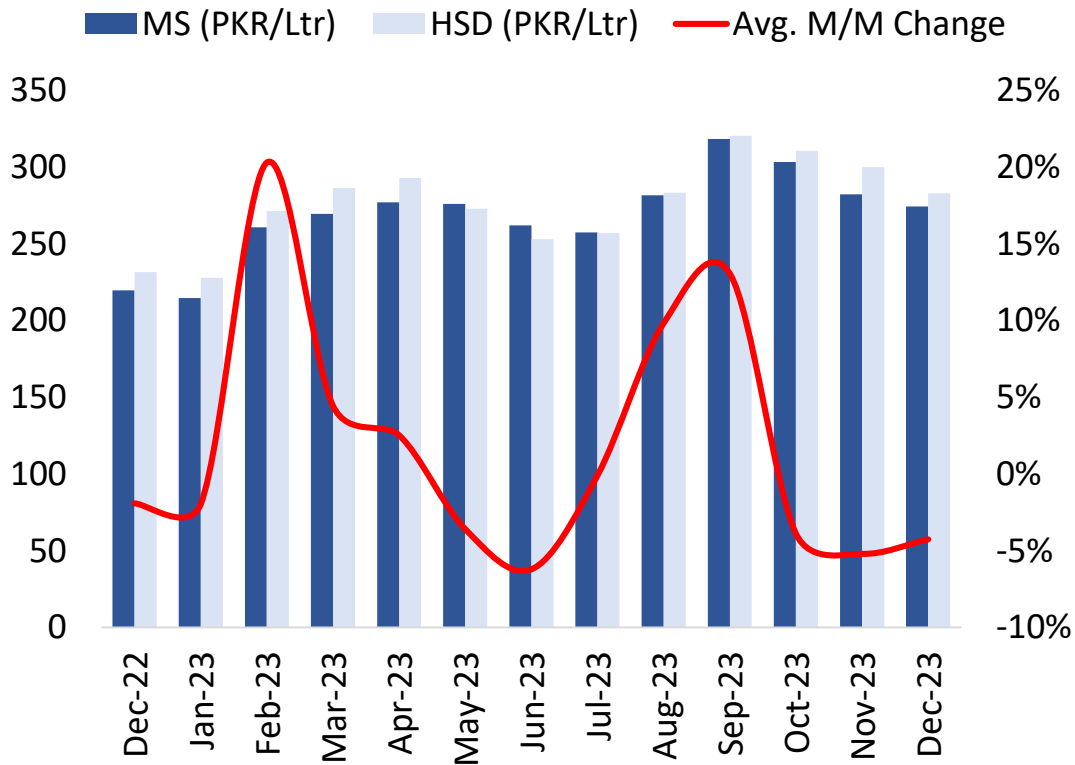
Source: PBS, Optimus Research

Chart 2: Electricity charges jumped ~15.8% due to prior adjustments & FCA



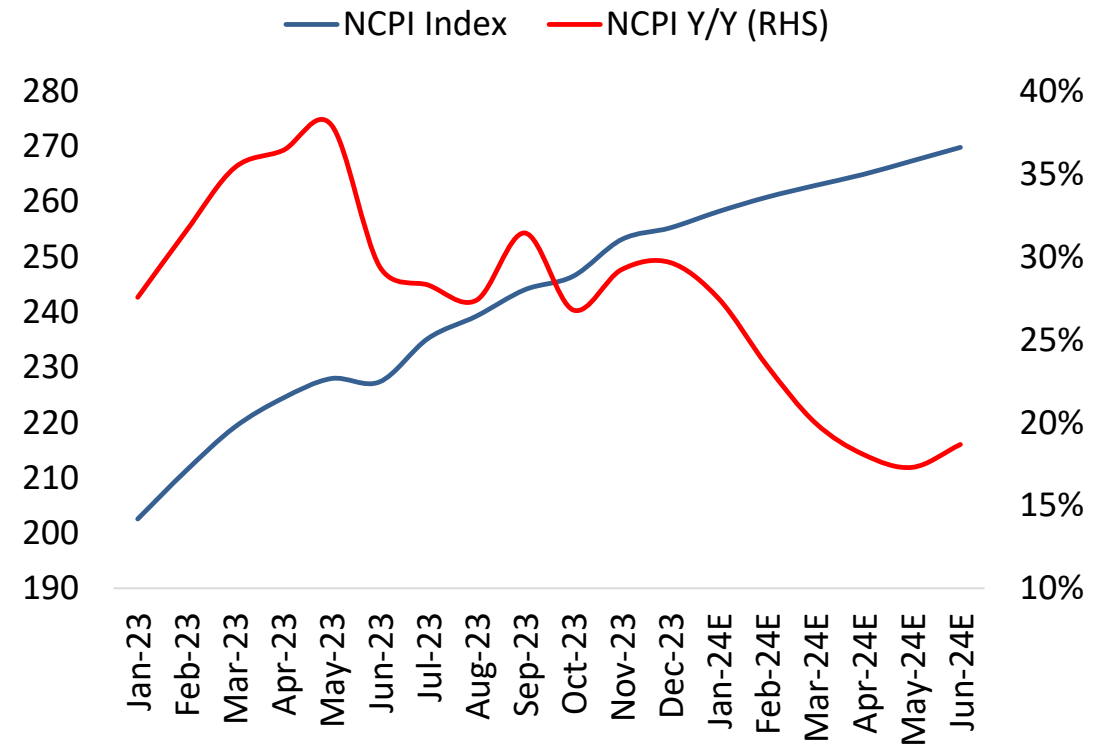
Source: PBS, OGRA, Optimus Research

Chart 3: Fuel prices are on declining trend recently, yet transportations charges increased M/M by 12.0%

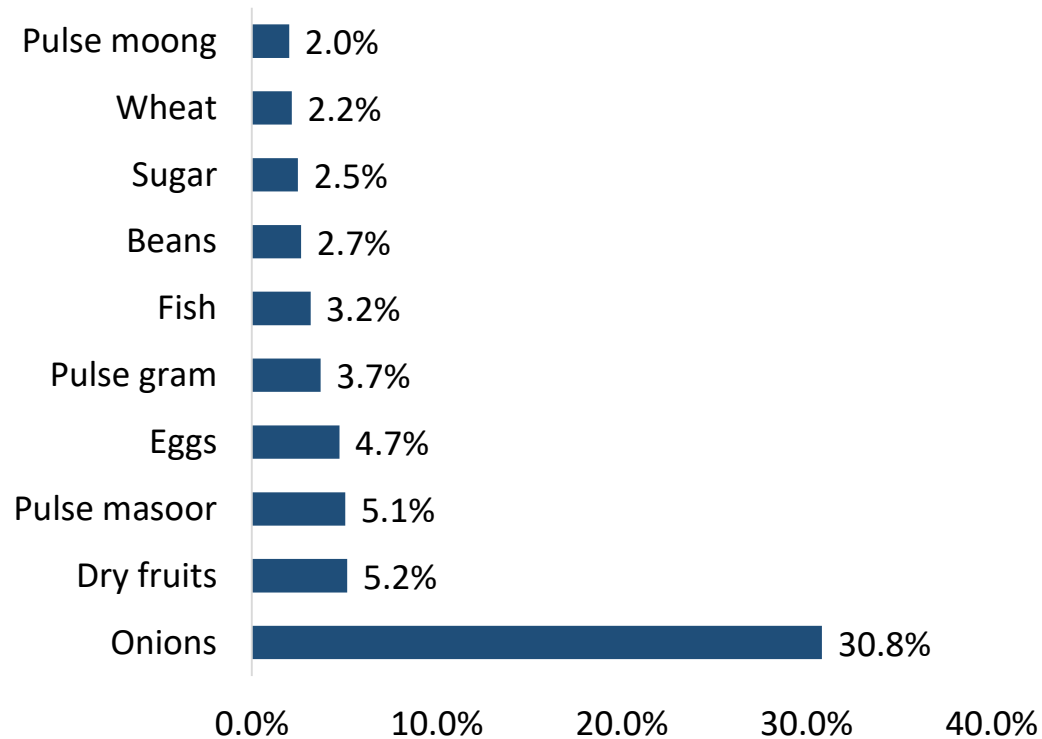


Source: PBS, OGRA, Optimus Research

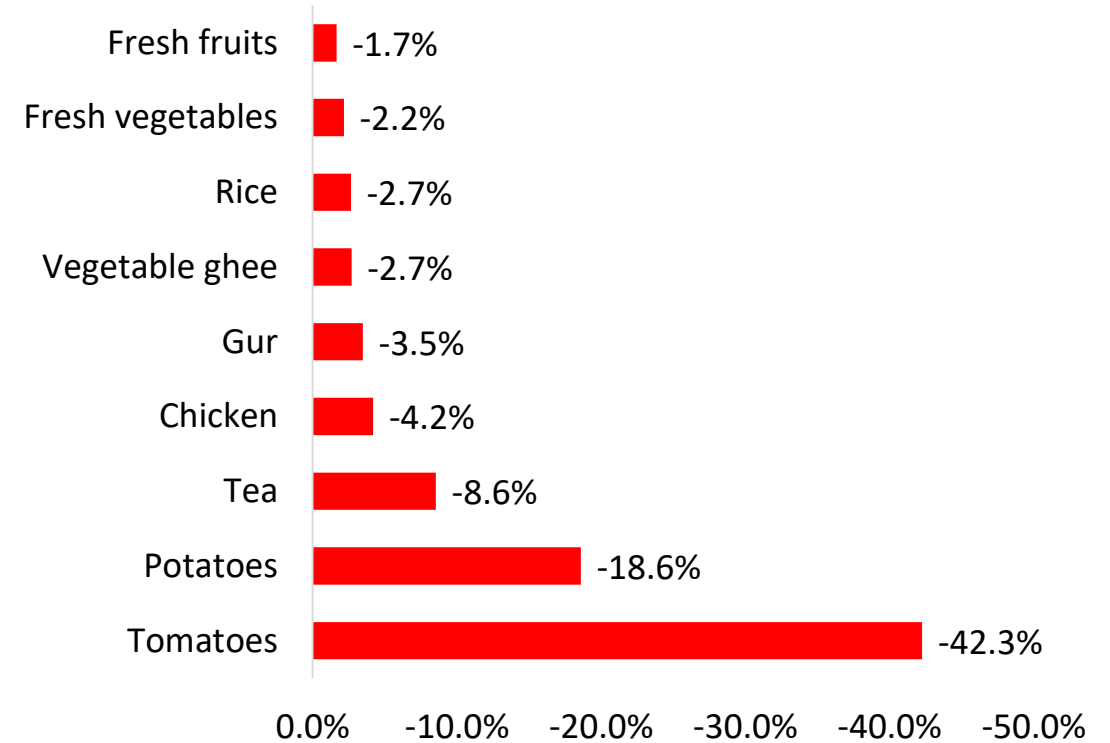
Chart 4: NCPI Y/Y is expected to decline sharply in next few months on base effect



Source: PBS, NEPRA, Optimus Research

Chart 6: Top 10 M/M increase in food prices (U/R weights 4/8%)


Source: PBS, Optimus Research

Chart 7: M/M decline in food prices (9/12 weights 7/10%)


Source: PBS, Optimus Research

Analyst Certification

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